NATIONAL ASSEMBLY

QUESTION FOR ORAL REPLY

QUESTION NUMBER: 194 [NO1115E]

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194. Mr S N Swart (ACDP) to ask the Minister of Finance:

What (a) does the National Treasury envisage the impact of the Russian invasion of Ukraine would be on the economic growth and recovery prospects for the global and the South African economy and (b) steps will he take to minimise the impact on ordinary South Africans? NO1115E

REPLY

(a)

- With the situation still developing and so much uncertainty, it is relatively difficult at this stage to quantify the potential impact with precision and confidence. However, South Africa's trade statistics point to a very weak trade intensity between South Africa and Russia and Ukraine on aggregate. Less than 1 per cent of South Africa's exported goods are destined for Russia and Ukraine combined. A similar number is reflected on inbound goods that are from both these countries. However, within certain industries, the trade exposure is more significant – such as exports of citrus, apples and pears products – where Russia is an important destination market.[1]
- The potential adverse effects to the South African real economy are likely to be fairly contained and mostly indirect if the conflict is not protracted. Historically, South Africa has recorded positive real GDP growth during periods when both Russia and Ukraine faced economic recessions, with the exception of global recession periods.[2] This suggests that the correlation between South Africa's growth and Russia's and Ukraine's is not as strong, particularly during periods where economic movements are dominated by country-specific factors.
- Despite relatively limited direct trade exposure to Russia and Ukraine, risks to the real economy are likely to manifest through the import and export price channels:
    - Import inflation is expected to remain high if oil and agricultural commodity prices (i.e. maize, wheat, sunflower oil) remain at elevated levels for an extended period of time. Russia is a major exporter of energy commodities (mainly oil and

[1] The diversion of volumes to other export markets or the domestic market could place downward pressure on prices and export earnings from the agriculture sector in 2022 following solid growth in the past two years. See: https://www.agbiz.co.za/content/open/14-march-2022-agri-market-viewpoint

[2] For example, during the post-soviet market periods from 1994 to 1999 and during the Russia's invasion of Crimea period, from 2014 to 2015.

gas), while both countries account for a significant proportion of global maize and wheat production. The persistent higher levels in these prices as suggested by the futures contracts[3] introduces renewed upside risks to the global and domestic inflation and interest rate outlook.

    - In the wake of the war, export commodity prices have increased. Gold has increased given its safe haven asset status, reaching its highest level in more than a year, while other commodities (including coal, iron ore and PGMs) have benefited from higher demand as certain countries refrain from importing some of these commodities from Russia.

- Taken together, South Africa's export commodity price basket could increase in the near-term, providing some tailwinds on the South African external account, which may offset potential weaker foreign demand and higher import prices. In addition, stronger export commodity prices could continue supporting the mining sector and public finances.
- Despite limited direct trade implications, risks to South Africa will likely manifest in financial markets owing to the emerging market (EMs) status of South African, Ukraine and Russia. As it stands however, the adverse effects of the developments in Ukraine have not spilled into South Africa in a material way.
- There are risks to the current assessment regarding the impact the conflict may have on South Africa. The risks largely depend on how long the conflict persists for and the impact that sanctions could have on Russia's and Ukraine's major trading partners, which could lead to wide-spread global inflationary pressures and a slowdown in activity (i.e. stagflation).
    - Europe remains highly exposed to any adverse developments in Russia and Ukraine that could compromise trade, entrenching the pre-existing global supply constraints. This will have adverse spillover effects to South Africa's trade, inflation and domestic growth outlook in the near term as some of South Africa's major trading partners are in Europe.

(b)

- The National Treasury produced a set of scenarios assessing the possible impact of the Brent crude oil price escalation on consumer prices. These scenarios are not a revision to the inflation outlook presented in the Budget Review 2022, but do provide some insights on the possible impact of higher oil prices on expected consumer price inflation in 2022. The scenarios, and associated assumptions, on the implications of a higher oil price suggest that consumers could pay anywhere between R1 and R3 more for a litre of fuel in 2022. The severity of the impact will ultimately be determined by the duration of the geopolitical conflict and its impact on key commodity prices as well as global supply chains.
- In the Budget Review, the Minister of Finance announced that the RAF levy and the general fuel levy will not be increased in the 2022/23 fiscal year. This intervention was

[3] A futures contract is a standardised legal agreement to buy or sell something at a predetermined price at a specified time in the future.

implemented to provide immediate relief from the impact of price increases and will result in a reduction in revenue of R3.5 billion. Further work is underway by the National Treasury and the Department of Mineral Resources and Energy to review aspects of the fuel price, to determine the impact of rising fuel prices on consumers and measures which could be taken over the short to medium term to provide relief.